The Western Freight Rate Advance Case

SUMMARY

OF

GENERAL RAILWAY TESTIMONY

Presented to the

INTERSTATE COMMERCE COMMISSION

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WESTERN RAILWAYS' COMMITTEE ON PUBLIC RELATIONS

Chicago, Illinois

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THE WESTERN FREIGHT RATE ADVANCE CASE

Herewith is presented a condensed summary of the general testimony submitted by the Western railways to the Interstate Commerce Commission at Chicago, Illinois, September 8th to 16th, 1925, in support of their petition for a general five per cent increase in their freight revenues.

THE RAILWAYS' OPENING STATEMENT

Statement of R. N. Van Doren

The Western railways' case was formally opened on September 8th with a brief statement as to the carriers' position made by R. N. Van Doren, vice-president of the Chicago & Northwestern Railway Company and chairman of the law committee of the Western lines. Mr. Van Doren said in part: "I thought that it might be advisable, to clarify the issues with which we are here concerned, if at the outset a very brief statement of the railways' proposed case be presented to the Interstate Commerce Commission.

"It is, we assume, generally understood, that this proceeding is a revenue case, based upon the exigent necessities of the Western railways for increased revenues. To the establishment of such necessities and the method by which they are to be supplied, we shall mainly direct our efforts.

"The proof will, we believe, abundantly sustain the allegations of the petition that an eleven per cent increase in revenues is necessary to afford these carriers even the minimum of a fair return prescribed by the Interstate Commerce Commission. It is quite evident that unless some substantial relief be afforded, other railroads than those now in the hands of receivers will probably be in similar financial condition.

"Our testimony will disclose the low level of freight rates in the Western territory—low rates in and of themselves, yet lower still when contrasted with those in other territories. Notwithstanding our greatly increased operating costs, our freight rates are but 29 per cent higher than in 1911. The most rigid economies have been practiced consistent with adequate service and such efficiencies

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have been enforced as have made possible the performance of this service. In the one matter of increased train loading alone, we have produced economies since 1911 which, had they not been effected, would in 1924 have increased our operating costs nearly half a billion dollars. The public has had the benefit of these economies and efficiencies. The amount of increased freight revenues we shall ask in this case will be but a small percentage of the annual savings to the public as the result of these economies.

"While the proof will establish our need for an eleven per cent increase, we shall not at this time ask for the full measure of relief to which we are entitled. We shall ask, not for an eleven per cent increase in freight revenues, but for five per cent. This we are doing for several reasons. First and foremost is the emergency of our necessity. We need additional revenue and we need it now. We have hoped that by asking for only a minimum we might more promptly and with less opposition obtain this relief which we must have. Perhaps we have been too hopeful. But nevertheless we shall proceed upon the basis of such hope in the belief that when our case is made the reasonableness and moderation of our demand will receive quite general approval. We are disposed to look to the future with optimism and not seek greater relief at this time.

"As to the general rate structure investigation called for under the terms of the Hoch-Smith Resolution, which is being considered at this time jointly with our petition for increased earnings, we shall cooperate with the Interstate Commerce Commission so far as we are able. We shall comply with the order and request of the Commission for data relating to that investigation to the extent to which such data is available or can be secured with reasonable effort. This data is being compiled and tabulated, and will be submitted at the proper time for use of the Commission. It is our purpose, furthermore, to initiate some studies and to submit the results thereof, demonstrating, as we believe, the absence of any basis at this time for any special favor or concession to agriculture.

"Whatever may have been the economic status of the agricultural industry at and prior to the time of the passage of the Hoch-Smith Resolution—whatever depression may have occurred in its financial condition—such condition and depression have been substantially, and, we shall aim to prove, completely removed, and agriculture has been restored to its economic equilibrium. In fact,

for the Western district as a whole, we maintain that agriculture as an industry and the farming people as a class are in better financial condition today, and have been for many months, than at any time since the war; and that in truth the actual purchasing power of the Western farmer is greater than in pre-war days.

"Substantially 25 per cent of the ton-mile traffic of the carriers in the Western district consists of agricultural products and live stock. Upon some of the railways the percentage is much higher. With products of agriculture forming so large a proportion of the traffic, no plan of freight levies can be devised in this district which leaves out this large volume of traffic. No plan for advances in freight rates can be evolved, with any reasonable assurance of increased revenues to the needy carriers, which does not provide for corresponding increases in rates upon agricultural products.

"A goodly number of the railroads in the Western district are in granger territory. Many of the railroads are strictly granger roads. We believe that we are performing a valuable service in this territory. For that service we are entitled, both in law and in morals, to a fair return. We could almost hope, under present conditions, for cooperation with rather than opposition to the petition which we have filed."

THE PRESENT SITUATION OF THE WESTERN RAILWAYS

Testimony of L. E. Wettling

Following Mr. Van Doren's opening statement, the railways' detailed case was commenced by L. E. Wettling, manager of the Statistical Bureau of the Western Lines. Mr. Wettling discussed at considerable length the present financial and operating conditions of the railways in the Western district. His statistics cover Class I railways alone.

The first general subject which the witness took up was the rate of return earned by the railways in the various districts since 1921. These figures appear below, covering the Class I railways in the Eastern, Southern and Western districts and the United States as a whole from 1921 to 1924 and for the first six months of 1925. Class I switching and terminal companies are included.

Rate of Return Earned on Property Investment as of the Beginning of the Year

District	1921	1922	1923	1924	First six months 1925
Eastern	2.85%	3.54%	4.85%	4.53%	5.10%
Southern	2.32	4.33	5.02	5.20	5.55
Western	3.12	3.45	3.96	3.87	3.33
United States	2.91	3.60	4.48	4.33	4.46

(NOTE: The figures for the first six months of 1925 are on an annual basis.)

In 1921, the return earned by the Western roads was higher than that earned in either the Eastern or Southern district. Since 1921, however, the situation has been reversed. These figures reflect the low relative earnings of the Western lines as compared with the railways in the Eastern and Southern districts and show, further, the effect of the general freight rate reductions made by the Interstate Commerce Commission, the reductions being materially greater in the West than in the other districts.

Comparing the Western district with the remainder of the United States, it appears that in 1921 the Western railways earned 3.12 per cent upon their property investment while the railways for the rest of the country as a whole earned 2.74 per cent. For subsequent years the figures are as follows:

Rate of Return Earned on Property Investment as of the Beginning of the Year

1922.	Western railways	3.45%
	Other railways	3.71%
1923.	Western railways	3.96%
	Other railways	4.88%
1924.	Western railways	3.87%
	Other railways	4.67%

These figures indicate clearly that the Western roads are not permitted, because of the relatively low level of their freight rates, to earn a rate of return as high as that received by the railways in other sections of the country.

In 1921, only one Western road or system earned 6 per cent or more upon its property investment. In 1922 only three roads or systems, in 1923 only seven roads or systems and in 1924 only three roads or systems in the West earned 6 per cent or over on their investment.

The following table shows for each year from 1921 to 1924 the number of Western roads or systems earning 6 per cent or more, earning from 5 to 6 per cent, from 4 to 5 per cent, etc., on their property investment as of the beginning of the year.

Number of Western Roads or Systems Falling Within Various Earning Classifications

Class	1921	1922	1923	1924
6 per cent or more	1	3	7	3
5 to 6 per cent	2	3	3	3
4 to 5 per cent	7	6	6	11
3 to 4 per cent	3	12	10	9
2 to 3 per cent	8	7	9	5
1 to 2 per cent	6	5	6	8
0 to 1 per cent	9	5	5	5
Deficits	12	7	3	5
Total	48	48	49	49

These figures show, further, that the Western roads or systems earning 5 per cent or over numbered but three in 1921, six in 1922, ten in 1923 and six in 1924. The average rate of return earned by the roads included in the foregoing table was 2.91 per cent in 1921, 3.42 per cent in 1922, 3.93 per cent in 1923 and 3.86 per cent in 1924.

Per mile of line, the property investment of the Western railways and the major items in their income account had increased as follows in 1924 as compared with 1911:

Taxes had increased	224.93 per cent
Operating expenses had increased	95.85 per cent
Operating revenues had increased	75.62 per cent
Property investment had increased	25.15 per cent
Net railway operating income had increased only	3.48 per cent

The present unfortunate financial situation of the Western carriers is clearly portrayed by the last two figures just given, wherein it appears that property investment per mile of line had increased more than 25 per cent from 1911 to 1924, while net earnings per mile of line had increased less than 3½ per cent.

Mr. Wettling next discussed the relative levels of freight rates in the different sections of the country, showing that freight rates in both the Eastern and Southern districts have been increased very much more, relatively, than have Western freight rates. For the year 1924 the average receipts

per ton mile in the Eastern district were 76 per cent higher than they were in 1911; in the Southern district, 37 per cent higher than in 1911, while in the Western district they were but 29 per cent higher than in 1911. Comparing the first five months of 1925 with the year 1911, it appears that Eastern freight rates have increased 75 per cent, Southern freight rates 36 per cent and Western freight rates but 26 per cent.

On the basis of 1915, the following increases in freight rates had occurred in 1924:

Eastern district	74 per cent
Southern district	48 per cent
Western district	38 per cent

On the basis of 1917, the following increases in freight rates had occurred in 1924:

Eastern district	69 per cent
Southern district	49 per cent
Western district	47 per cent

On the basis of 1919, the following increases in freight rates had occurred in 1924:

Eastern district	23 per cent
Southern district	9 per cent
Western district	10 per cent

That these figures are not affected by disproportionate changes in the average length of haul in the various districts was shown by the fact that in 1924, as compared with 1911, the average haul per ton of freight had increased 14 per cent in the Eastern district, 16 per cent in the Southern district and 13 per cent in the Western district. The Western district, showing the lowest percentage of increase in average haul, is theoretically entitled to the highest percentage of increase in the average receipts per ton mile, the general theory being that with the lengthening of the haul, the average receipts per ton mile decrease.

Despite the fact that Western rates have relatively fallen far behind rates in the Eastern district, the Western carriers have kept pace with the East in the relative increase in tons per loaded car. In 1924, the average tons per loaded car in the Eastern district showed an increase of 22.52 per cent over 1911, while in the Western district the corresponding percentage of increase was 22.47.

The increased facilities provided by the Western railways for the service of their patrons were next portrayed briefly by Mr. Wettling in a statement showing the growth in various classes of trackage and in property investment which occurred between 1911 and 1924.

Miles of road (first main track) had increased	11.55 per cent
Miles of second main track had increased	90.39 per cent
Miles of third main track had increased	60.60 per cent
Miles of other main track had increased	66.23 per cent
Miles of yard track and sidings had increased	36.53 per cent
Miles of all track had increased	20.19 per cent
Aggregate property investment had increased	41.38 per cent

These figures are striking evidence of the increased facilities provided by the railways for the people of the West.

Certain traffic averages and operating statistics of the Western roads were next discussed by the witness. Some of the more important of these averages are shown below for the years 1911 and 1924, together with the percentage of increase, 1924 over 1911:

Item	1911	1924	Per Cent Increase
Freight revenue per freight train mile	$ 3.16	$ 6.69	111.71
Passenger revenue per passenger train mile	$ 1.22	$ 1.60	31.15
Passenger train service revenue per passenger train mile	$ 1.48	$ 2.13	43.92
Freight cars per train	28.74	40.60	41.27
Revenue tons per train	336.10	553.54	64.70
Passengers per train	57.41	52.12	*d* 9.21
Passenger train service cars per train	5.80	6.43	10.86
Operating expenses per transportation service train mile	$ 1.63	$ 3.44	111.04
Taxes per transportation service train mile	$ .09	$ .30	233.33
All expenses per transportation service train mile	$ 1.74	$ 3.83	120.12
Wages per transportation service train mile	$ .98	$ 2.16	120.41
Transportation service car miles per employee	12,870	17,568	36.50
Transportation service train miles per employee	737.21	737.79	.08

d Decrease.

The significant figures in the foregoing summary are: From 1911 to 1924 freight revenue per freight train mile increased 111.71 per cent; passenger train service revenue per passenger train mile increased 43.92 per cent; while per transportation service train mile, both freight and passenger, operating expenses increased 111.04 per cent; taxes increased 233.33 per cent, and all expenses increased 120.12 per cent, a much higher percentage of increase than occurred in revenues.

The foregoing figures show a saving to the public in 1924, due to efficiencies in operation made since 1911, of more than half a billion dollars due to one item alone. Revenue tons per train were 553.54 in 1924, and 336.10 in 1911. If the Western railways had been loading their trains in 1924 only to the amount of the 1911 loading, it would have required 404,736,900 train miles to handle the 1924 traffic, instead of the 245,744,898 train miles actually run in 1924. This means that increased train loading in 1924 resulted in a saving of 158,992,000 train miles, which at $3.83 per train mile, means a money saving of $609,000,000. Discounting this total by as much as 25 per cent on account of possible fuel and maintenance savings still leaves a saving in operating expenses of more than $450,000,000. Five per cent of the 1924 freight revenue of the Western railways amounts approximately, to $82,000,000, so the annual savings to the public from the one item of heavier train loading alone are more than five times the amount of the rate increases now requested.

Mr. Wettling next compared the operating revenues and expenses of the Western roads in 1924 and 1916. Comparing 1924 with 1916, Western railway operating revenues have increased 53 per cent. Operating expenses have increased 81 per cent, and taxes have increased 102 per cent, both materially higher than the percentage of increase in revenues. As a result, the net railway operating income decreased 19 per cent.

Putting the foregoing figures on an average per mile of road the following situation appears:

Account	1916	1924	Increase, 1924 over 1916 Amount	Per Cent
Operating revenues	$11,240.00	$16,700.00	$5,460.00	48.58
Operating expenses	7,082.00	12,490.00	5,408.00	76.36
Taxes	556.00	1,093.00	537.00	96.58
Net railway operating income	3,530.00	2,795.00	Dec. 735.00	Dec. 20.82

Per thousand train miles the figures are as follows:

Account	1916	1924	Increase, 1924 over 1916 Amount	Per Cent
Operating revenues ..	$2,875.00	$4.595.00	$1,720.00	59.82
Operating expenses ..	1,811.00	3,436.00	1,625.00	89.73
Taxes	142.00	301.00	159.00	111.97
Net railway operating income	903.00	769.00	Dec. 134.00	Dec. 14.84

The following figures present the financial situation in 1916 and in 1924 per thousand car miles:

Account	1916	1924	Increase, 1924 over 1916 Amount	Per Cent
Operating revenues ..	$141.50	$212.04	$70.54	49.85
Operating expenses ..	89.15	158.58	69.43	77.88
Taxes	7.00	13.85	6.85	97.86
Net railway operating income	44.43	35.49	Dec. 8.94	Dec. 20.12

Property investment of the Western railways on December 31, 1924, was $9,900,773,458. In 1916, at the end of the calendar year, the investment was $8,159,292,775. There was thus an increase from 1916 to 1924 of $1,741,480,683. The net railway operating income in 1924 was $371,504,260. In 1916 it was $456,049,664. 1924 thus shows a decrease below the 1916 net earnings amounting to $84,545,404. The rate of return on property investment was only 3.75 per cent in 1924 as compared with a return of 5.59 per cent in 1916.

The 1924 earnings amounted to a $5\frac{3}{4}$ per cent return on only $6,460,943,452 of property investment or on less than two-thirds of the money invested in the Western railways. Had the 1924 net been increased by 5 per cent of the total freight revenues in that year, the resulting net railway operating income even then would have been short of the earnings in 1916, notwithstanding the very large increase in investment and would have amounted to a return of 5.56 per cent on the 1916 investment, contrasted with the 5.59 per cent actually earned in 1916. Had the 1924 net railway operating income been increased by 5 per cent of the total freight revenues, this increased net would have produced a fair return on only $7,890,910,261 of property investment, leaving $2,009,863,000 of property investment receiving no return whatever.

The losses in freight revenues which the Western railways have suffered since 1920 were next discussed by Mr. Wettling. In August, 1920, freight rates in Western ter-

ritory were increased, on the average, approximately 32 per cent, this increase being necessary to establish a rate level calculated to yield the Western railways a fair return. Immediately after this increase, however, downward readjustments were effected which have continued to the present time, augmented materially by the general freight rate reductions made by the Interstate Commerce Commission in 1922. On the basis of the increased rates established in August, 1920, it is estimated that the average receipts per ton-mile of the Western railways under those rates were 1.449 cents. In 1921 this figure had been reduced to 1.422 cents; in 1922 to 1.292 cents; in 1923 to 1.228 cents and in 1924 to 1.209 cents.

These downward readjustments and the general rate reductions have resulted in the following losses in freight revenues to the Western lines below the earnings which they would have had if the rates established in August, 1920, had remained in effect:

Losses in Revenue Due to Freight Rate Reductions Below Rate Level Fixed in August, 1920

Year	Loss in Freight Revenue	Percentage of reduction in gross freight revenues
1921	$ 29,337,687	1.85
1922	186,061,493	10.76
1923	302,845,567	15.12
1924	326,598,358	16.48
Total 4 Years	$844,843,105	

It appears that in the last four years Western shippers have been saved an aggregate of approximately $845,000,000 due to reductions in freight rates below the level established by the Interstate Commerce Commission in August, 1920, as calculated to yield the railways a fair return. Further, it appears that present Western freight rates are more than 16 per cent below this fair return level.

Mr. Wettling next presented statistics showing the relationship of the freight revenues on agricultural products of Class I roads in the United States to the net value of those products at the farm, plus the freight to the point of consumption. The statement showed, contrasted with 1921, an increase of $956,000,000 (excluding crops fed to animals) in the net farm value of agricultural products in 1922, an increase of $2,128,000,000 in this value in 1923

and an increase of $2,188,000,000 in 1924. The percentages of increase in the net farm value of agricultural products over 1921 are 9.36 per cent in 1922; 20.83 per cent in 1923, and 21.42 per cent in 1924.

The total freight revenues received by the railroads of the United States from the transportation of farm products were $887,701,000 in 1922; $832,604,000 in 1923, and $866,157,000 in 1924. The ratio of these freight charges to the net farm value of agricultural products, plus the freight to the point of consumption, was 7.36 per cent in 1922; 6.32 per cent in 1923 and 6.53 per cent in 1924.

The ratio of the increased net farm value of agricultural products for 1922 over 1921 to the freight charges thereon in 1922 was 107.7 per cent. The ratio of the increased net farm value for 1923 over 1921 to the agricultural freight charges in 1923 was 255.6 per cent. The ratio of increased net value of farm products for 1924 over 1921 to the freight charges thereon in 1924 was 252.6 per cent. In other words, the increase in the net farm value of agricultural products in 1924 as compared with 1921 was more than two and one-half times as great as the total freight charges paid on these products in 1924.

Mr. Wettling's final table presented a comparison of certain financial and operating statistics for the Western railways, comparing the calendar year 1924 with the average results for the test period (the three years ended June 30, 1917). Comparing 1924 with the test period average the following facts appear:

Gross revenues increased	63.37 per cent
Operating expenses, including rentals, increased	91.83 per cent
Taxes increased	104.23 per cent
Net railway operating income decreased	7.23 per cent
Transportation train miles decreased	1.39 per cent
Transportation car miles increased	17.69 per cent
Ton miles increased	21.55 per cent

Mr. Wettling next quoted the following statement made by the Interstate Commerce Commission's Bureau of Statistics: "If the man-hour cost is assumed to have increased 119 per cent, the material prices 74.5 per cent and if depreciation, retirements, insurance and pensions are assumed to have remained unaffected by these influences, the total operating expense of $4,994,000,000 (including equipment and joint facility rents) stated in terms of test period dollars is reduced to $2,641,000,000 and the weighted average increase in the railroads' cost of living would be 89

per cent for the calendar year 1923 as compared with the test period."

On the basis of this statement the unit cost per net ton-mile, excluding taxes, was calculated for the various districts for 1923, thus putting the 1923 figures on the basis of the test period unit prices and wages. These equated figures, eliminating increases due to higher price and wage levels, show that on the test period cost bases the unit cost per net ton-mile in 1923, as compared with the test period, had been reduced 1.15 per cent in the Eastern district, 8.88 per cent in the Southern district, and 11.16 per cent in the Western district.

Statistics were also presented showing for the various districts the changes which have occurred in net railway operating income, comparing 1923 first with the test period average and then with 1916. 1923 compared with the average for the test period shows the following changes in net railway operating income:

Increase of $65,000,000 in the Eastern district.
Increase of $39,000,000 in the Southern district.
Decrease of $34,000,000 in the Western district.

1923 compared with 1916 shows the following changes in net railway operating income:

Increase of $ 1,000,000 in the Eastern district.
Increase of $10,000,000 in the Southern district.
Decrease of $89,000,000 in the Western district.

SITUATION OF THE CHICAGO & NORTHWESTERN

Testimony of Fred W. Sargent

The conditions confronting the Western railways as typified by the situation of the Chicago & North Western Railway Company were presented by Fred W. Sargent, president of that company. The Chicago and North Western Railway Company has in every year since the end of federal control furnished its service to the public at a return of less than 4 per cent upon its investment and the experience of the North Western is typical of the Western railways.

This situation is caused by the great increases which have occurred in the cost of railway operation, in fuel, in wages, in taxes, and in practically every other item; by the fact that western railway rates have been kept

far below the rising tide of their costs; and by the fact that constant new capital expenditures must be made to meet the growing demands of agriculture and industry and to furnish the people of the West with prompt, adequate and efficient transportation service.

The increased cost of railway operation is typified by the following figures showing for the years 1913 and 1924 various items of the North Western's expenditures together with the percentage of increase which has occurred:

Item	1913	1924	Per Cent of increase 1924 over 1913
Employes' compensation per hour	$ 0.2577	$ 0.6149	138.61
Employes' compensation per annum	758.92	1,631.08	114.92
Operating expenses	58,252,780.00	120,536,645.00	106.92
Taxes	3,597,160.00	9,348,842.00	159.90
Average cost oak cross ties	.73	1.38	89.04
Average cost per ton rail	30.13	44.32	47.10
Average cost per ton fuel	2.03	2.70	33.00

The loss in freight revenues to the Chicago & North Western in 1923 and 1924 caused by the general freight rate reductions which have been made is shown below in detail:

1923 Loss Classified

Commodity	Total Revenue For 1923	Loss in Revenue For 1923
Grain and Grain Products	$ 13,994,718.87	$ 2,516,944.39
Other Products of Agriculture	5,172,517.10	599,987.51
Total Products of Agriculture	19,167,236.97	4,116,931.90
Live Stock	9,437,013.42	1,226,811.75
Other Products of Animals	4,683,648.67	515,201.39
Total Products of Animals	14,120,662.09	1,742,013.14
Iron Ore	6,827,103.19	1,550,783.25
Other Products of Mines	18,866,152.88	2,075,276.73
Total Products of Mines	25,693,256.07	3,626,059.98
Total Products of Forests	8,503,058.87	935,336.49
Total Mfrs. & Miscellaneous	32,567,226.60	3,582,394.99
Total All Carload Freight	100,051,440.60	14,002,736.50
Total L.C.L. Freight	16,424,121.98	1,806,653.42
Total C.L. and L.C.L.	116,475,562.58	15,809,389.92
Intrastate estimated		250,000.00
Total year 1923	$116,475,562.58	$ 16,059,389.92

1924 Loss Classified

Commodity	Total Revenue For 1924	Loss in Revenue For 1924
Grain and Grain Products	$ 12,649,720.46	$ 3,102,502.59
Other Products of Agriculture	4,787,130.33	554,881.56
Total Products of Agriculture	17,436,850.79	3,657,384.15
Live Stock	10,031,496.98	1,304,094.61
Other Products of Animals	4,837,308.43	532,103.93
Total Products of Animals	14,868,805.41	1,836,198.54
Iron Ore	5,008,076.71	1,133,975.13
Other Products of Mines	16,319,946.27	1,795,194.09
Total Products of Mines	21,328,022.98	2,929,169.22
Total Products of Forests	7,956,952.91	875,264.82
Total Mfrs. & Miscellaneous	29,512,507.68	3,246,375.84
Total All Carload Freight	91,103,139.77	12,544,392.57
Total L.C.L. Freight	15,526,560.99	1,707,921.71
Total C.L. and L.C.L.	106,629,700.76	14,252,314.28
Intrastate estimated		225,000.00
Total, year 1924	$106,629,700.76	$ 14,477,314.28

The Western railways have been furnishing their patrons with the best transportation service they have ever known. The activities of the management of the Chicago & North Western Railway Company toward efficient and economical operation are reflected in part in the following data:

Economies and Efficiency

Increased Efficiency	1913	1924	Ratio to 1913
Tractive Power of Locomotives (Aggregate)	44,920,410	73,054,200	162.63%
Tractive Power of Locomotives (Per Locomotive)	26,086	34,557	132.47%
Carrying Capacity Freight Cars (Aggregate) Tons	2,114,945	2,838,879	134.23%
Carrying Capacity Freight Cars (Per Car)	35.0	41.2	117.71%
Revenue Tons per Loaded Car	18.4	19.7	107.07%
Car Miles per Car per Day	19.4	23.5	121.13%
Tons per Train (Net), Revenue Freight	351	444	126.50%
Tons per Train (Gross)	982	1,295	131.87%
Locomotive Miles per Engine Failure	23,277	69 967	300.58%
Month of July, 1925		165,298	710.13%
Fuel Consumed per 1,000 G. T. M. (lbs.)	255	178	69.80%
Tons Carried of Revenue Freight	44,839,071	52,158,316	116.32%
Ton Miles of Revenue Freight	6,282,916,222	8,290,312,710	131.95%

Despite the records which the Western railways have made in the quality of their transportation service, the roads are not being permitted to earn a fair return from this service. This condition has compelled the postponement of needed replacements to the railway property, has prevented the undertaking of additions and extensions to the railway plant, which would mean much to the people of the West, has necessitated reductions in the operating forces beyond the point of reasonable economy, and has deprived the railway stockholders of reasonable dividends upon their investments.

All of these unfortunate conditions have a direct and depressing relation to the prosperity of the communities served by the Western railways and of the citizens of these communities, and, further, to the economic welfare of the countless persons, industries and mercantile activities which depend upon the railways for part or all of their income or which receive the business of the railways or of their employees.

A reasonable increase in freight rates will act in a number of ways to correct this situation. Such an increase will permit the railways to stabilize the employment of their men and to expand the forces employed in maintenance work; it will allow the roads to purchase the materials and the equipment necessary to operate and maintain the properties if the present standard of service is to be continued; it will enable the carriers to participate properly in community enterprises for improvement and expansion; and it will give fair and reasonable dividends to the investors in railway stocks, including the banks, the colleges, the insurance companies and the various other classes of railway stockholders whose welfare is the welfare of the people in general. All this will increase the buying power of the roads, of their employees, of their stockholders, and of all those dependent upon them, thereby producing greater prosperity in general, and enlarging the home market for American production, both agricultural and industrial.

To cite a specific illustration, in the fiscal year ended June 30, 1925, 193,000,000 bushels of wheat were exported from this country, while in the same year the estimated American under-consumption of wheat was 206,000,000 bushels. This home under-consumption could be materially reduced, with accompanying financial advantage to the American farmers, if the general purchasing power of our working population was raised. The per capita

wheat consumption in this country in the fiscal year 1925 was but 4.15 bushels, while in fourteen of the fifteen years immediately preceding this country's entrance into the World War, the average consumption per individual was well over five bushels a year, running, indeed, as high as 6.04 bushels in one year. Present wheat consumption per individual can be raised to the pre-war level, and above, by an increase in purchasing power. A reasonable increase in Western freight rates will immediately increase the purchasing power of the Western railways, of their employees, of their stockholders, and of all those dependent upon them, thereby producing greater prosperity in general, and enlarging the home market for American agricultural production.

Finally, a reasonable increase in freight rates will guarantee for the West the maintenance of an adequate system of transportation, a fundamental necessity for individual and national prosperity and welfare. As it is, the continuation of the present adequate transportation service in the West is seriously threatened by the present low level of Western railway earnings, which, in turn, are the result of the depressed level of Western freight rates.

It is evident, therefore, that every factor which may be considered shows at the same time the necessity of and the justification for an increase in the earnings of the Western railways.

SITUATION OF THE NORTHERN PACIFIC

Testimony of Charles Donnelly

Charles Donnelly, president of the Northern Pacific Railway Company, testified as to the conditions confronting his line. In no year since the passage of the Transportation Act has the Northern Pacific earned a fair return.

At the end of the year 1924 the company's investment in road and equipment, materials and supplies and working capital amounted to $588,000,000. Upon this investment it had a return for the year 1924 of 3.37%. Its return on investment for the four preceding years was 1.44% in 1920, 1.93% in 1921, 3.47% in 1922 and 2.93% in 1923.

Argument is unnecessary to prove that this return is inadequate. The explanation of this inadequacy is not to be found in any shortcomings of the property consid-

ered as a transportation agency, or in any extravagance of outlay in connection with its operation. The physical condition of the property as regards both roadway and equipment is good. It has been well, though in no sense extravagantly maintained. It is capable of rendering, and is actually rendering, efficient service at unit operating costs which will bear comparison with those prevailing anywhere. The single explanation why the return is inadequate is that freight rates are too low.

In the year 1924 the freight rate level of the Northern Pacific as measured by the average receipts per ton mile, had increased approximately 33 per cent over 1913. With this 33 per cent increase in freight rates, we have had to face increases in our expenses of a vastly greater amount. Our taxes which in 1913 were $4,000,000 were $8,500,000 in 1924. The wages which we paid to employees have increased from 26 per cent in some instances to 193 per cent in others. The cost of locomotives has increased 134 per cent; of coal, 46 per cent; of rails, 44 per cent; of locomotive tires from 75 to 99 per cent; of car axles, 100 per cent; and so on down the entire list.

In connection with this increase in taxes and expenses I wish to draw attention to the very great decline in our passenger business, a situation which I do not think is going to improve. The short haul passenger business is more and more going to the bus and private automobile, and, so far as I can see, there is little likelihood of its ever being recovered by the rail passenger carriers as such.

In 1919 we had passenger revenues amounting to $20,000,000. In 1924 that had shrunk to $13,000,000. As far back as 1914 we carried 9,336,000 passengers. In 1924 we carried 3,607,000 passengers.

Our average haul per passenger (this being the best index of the extent to which we are losing the short haul business) has risen from 67 miles in 1914 to 114 miles in 1924.

If we had been able in connection with the great loss of passenger business, to make a corresponding reduction in passenger train mileage, it would not have been so bad. However, the character of passenger service is not a function of operation as to which the management has an adequately free hand. We cannot, for example, in the state of Minnesota, take off a passenger train without getting permission of the regulating authorities to do so. The

obligation to render the service is there. It cannot be escaped.

In consequence, whereas in 1914 we made 11,230,000 passenger train miles, we were able in 1924 to reduce that only to 9,602,000 and that figure has remained practically constant ever since 1916.

SITUATION OF THE MINNEAPOLIS & ST. LOUIS

Testimony of W. H. Bremner

The conditions confronting the Minneapolis & St. Louis Railroad were presented to the Interstate Commerce Commission by W. H. Bremner, receiver of that company. Had it not been for the heavy reductions in freight rates made by the Interstate Commerce Commission since 1920, the Minneapolis & St. Louis Railroad would not now be in the hands of the Court, testified Mr. Bremner.

Average freight charges on the Minneapolis & St. Louis Railroad in 1924 were only one-third greater than in 1915, an increase which is totally inadequate when compared with the increase in the prices of materials and supplies, in taxes, and in the cost of labor.

White oak ties, which in 1915 cost 56 cents each, today command a price of $1.22 each, an increase of approximately 116 per cent. Iowa coal, which in 1915 cost $1.89 per ton is today costing us $3.60 per ton, an increase of approximately 90 per cent. Bar iron, which in 1915 cost $1.15 per hundred pounds, cost $2.15 in July, 1925, an increase of 87 per cent.

These illustrations might be continued almost indefinitely. Everything which a railroad buys has increased in cost in a much greater degree than the increase in the rates at which transportation is sold.

Our total payroll in 1924 had increased 119 per cent over 1915, while taxes in 1924 showed an increase of 66 per cent. To offset all these huge increases in prices, wages and taxes, we have but a 33 per cent increase in freight rates.

In the year 1915, the Minneapolis & St. Louis Railroad earned a net railway operating income of $2,588,000, and in 1916, $2,912,000, or approximately 4.8 per cent on its investment. In 1923 it earned only $825,000, or 1.3 per cent on its investment, while in 1924 it incurred a

deficit of $960,000. Had freight rates in 1924 been the same as in 1921, earnings in 1924 would have been $1,297,000.

The Minneapolis & St. Louis is now generally looked upon, financially, as one of the weaker roads of the Northwest. However, only a comparatively short time ago, our stock was selling above par. It will be seen from the foregoing figures that prior to the great changes in the relation between the rates which the railroads were permitted to charge for their services and the cost of the various units necessary to be used in the furnishing of transportation, the Minneapolis & St. Louis was in no immediate danger of being forced to the wall.

Unless the Minneapolis & St. Louis is allowed sufficient income to permit it to be properly equipped and to operate in an efficient manner, a large industrial population, as well as a large agricultural population, will be seriously inconvenienced. The only method by which there may be secured the additional revenue needed, not alone by the Minneapolis & St. Louis, but by all the roads of the Northwest, is by an increase in freight rates. I do not look for any sudden increase in the amount of traffic. The Northwest is improving in a business way, but development is gradual and will not be sufficient for many years, if ever, to permit the railroads to earn a fair return on the present level of freight rates. The stockholders, bondholders and creditors of the Minneapolis & St. Louis are entitled to consideration and should not be compelled longer to devote their money to the service of the public without any compensation whatsoever.

INCREASING ADEQUACY OF TRANSPORTATION SERVICE AND IMPROVEMENTS IN EFFICIENCY AND ECONOMY OF OPERATION

Testimony of R. H. Aishton

The increasing adequacy of transportation and the remarkable improvement in the efficiency and economy of operation which have been made in recent years were presented in detail by R. H. Aishton, president of the American Railway Association. Mr. Aishton showed that in the past three years capital expenditures of the Class I railways of the United States had amounted to $1,420,-

841,252 for new equipment and $942,324,238 for improvements and additions to roadway and structures, a grand total of $2,363,165,490. These capital expenditures have probably been the principal factors in the increase in the adequacy of transportation during the past few years.

The tangible results of these large expenditures of capital are shown by the fact that in the past three years 2,760 miles of new track have been constructed in the United States, while from January 1, 1922, to August 1, 1925, 8,728 new locomotives and 534,508 new freight cars were put in service on the railroads of the country.

During the first 33 weeks of this year the railways have handled the largest number of cars loaded with freight ever handled in the same period of time. Despite these record-breaking carloadings, with the figures for several weeks past showing more than one million cars loaded each week, there has been at all times a surplus of cars in good order and ready for service in excess of 200,000, and a surplus of locomotives in good order in excess of 4,200.

With reference to the increased efficiency and economy of operation which has been produced in recent years, Mr. Aishton presented a number of interesting statistical tables and charts. His first table dealt with the economies which have been made in road fuel consumption in both freight and passenger service. In 1920, for the United States as a whole, fuel consumption per one thousand gross ton miles in the freight service was 197 pounds. In 1924 this had been reduced to 170 pounds. This means that for the entire country there was a saving in the freight road fuel bill of $39,022,000 due solely to increased efficiency in the use of fuel. This figure is based both on the 1924 freight traffic and on the 1924 average fuel cost per ton.

In the Western district alone, the fuel consumption per one thousand gross ton miles in the freight service has been reduced from 198 pounds in 1920 to 168 pounds in 1924, resulting in a saving in 1924 as compared with 1920 of $17,752,000 due to increased efficiency in freight fuel consumption.

The passenger service presents the same situation. For the United States as a whole, the fuel consumption per passenger train car mile in 1920 was 18.8 pounds. In 1924 this figure had been reduced to 17.0 pounds. This reduction resulted in a saving of $9,905,000, caused by increased efficiency in the use of fuel in the passenger service.

For the Western district alone the fuel consumption per passenger train car mile has been reduced from 17.4 pounds in 1920, to 15.8 pounds in 1924 with a consequent saving of $3,899,000 due to increased efficiency in fuel use in the passenger service.

This increase in the efficiency of fuel utilization has largely been the result of capital expenditures for improved devices on locomotives, of a very active campaign on the part of the railroads and their committees in the American Railway Association, and of the active and intelligent cooperation on the part of the officers and employees engaged in the handling of fuel.

Similar increases in the efficiency of operation are shown in the figures covering loss and damage payments and payments made on account of injuries to persons. For the United States as a whole the figures for 1920 and 1924, together with the amount and percentage of reduction comparing 1924 with 1920, are shown below:

Loss and Damage Payments and Payments for Injuries to Persons—Class I Railways United States

Item	1920	1924	Decrease, 1924 under 1920 Amount	Per cent
LOSS & DAMAGE				
Damage to property ..	$ 10,048,734	$ 5,351,536	$ 4,697,198	46.7
Damage to live stock..*a*	7,168,579	3,199,948	3,968,631	55.4
Loss and damage, freight.	*b*119,833,127	*c*41,251,243	78,581,884	65.6
Loss and damage, baggage	810,282	371,256	439,026	54.2
Total loss and damage	*b*$137,860,722	$50,173,983	$87,686,739	63.6
Injuries to persons	$ 56,237,476	$39,533,860	$16,703,616	29.7

a On right of way.

b Includes approximately $15,000,000 of Federal lap over items applicable to prior periods.

c Includes $6,905,901—the approximate amount of additional loss and damage freight expenditures charged to insurance account.

For the Western district alone the figures are as follows:

Item	1920	1924	Decrease, 1924 under 1920 Amount	Per cent
LOSS & DAMAGE				
Damage to property ...	$ 3,722,505	$ 1,711,803	$ 2,010,702	54.0
Damage to live stock ..*a*	3,887,892	1,786,256	2,101,636	54.1
Loss and damage, freight	47,106,714	15,228,196	31,878,518	67.7
Loss and damage, baggage	242,621	75,662	166,959	68.8
Total loss and damage	$54,959,732	$18,801,917	$36,157,815	65.8
Injuries to persons	$24,284,203	$15,782,260	$ 8,501,943	35.0

For the United States as a whole, the number of cars in the average freight train has been increased from 36.6 in 1920 to 41.7 in 1924. Net tons per train have been raised from 708 in 1920 to 715 in 1924, average freight train speed has been increased from 10.3 miles per hour to 11.5 miles per hour and the freight car miles per freight car day have been raised from 25.1 to 26.9.

For the Western district alone, the number of freight cars per freight train has been increased from 34.8 in 1920 to 40.5 in 1924, net tons per train have been increased from 610 to 639, average freight train speed has been raised from 11.1 miles per hour to 12.1 miles per hour and freight car miles per freight car day have been increased from 28.1 to 28.9.

THE RAILWAYS' DETAILED PETITION

Testimony of C. E. Spens

Specific details of the carriers' formal petition were presented to the Interstate Commerce Commission by C. E. Spens, vice-president of the Chicago, Burlington & Quincy Railroad, and chairman of the traffic committee of the Western lines.

The Transportation Act of 1920 recognizes and emphasizes the constitutional guarantees of fair return on

a On right of way.

property devoted to public uses, delegates authority to the Interstate Commerce Commission to determine the figures that in its judgment will constitute an annual fair return upon the value of railway property, and requires the Interstate Commerce Commission to so adjust the level of railway rates that the railways will earn as nearly as possible an annual fair return.

For the two years ending March 1, 1922, the annual fair rate of return was determined by the Interstate Commerce Commission as 6 per cent. Subsequently this fair return has been fixed by the Commission at 5¾ per cent annually. In no year, however, since the passage of the Transportation Act have the Western railways been permitted to earn upon their properties that percentage of annual return specified by the Interstate Commerce Commission as a fair return.

The carriers in the Western district, however, have been very reluctant to apply to the Interstate Commerce Commission and to the state commissions for relief, and have patiently awaited the fulfillment of the belief expressed by the Interstate Commerce Commission that under efficient and economical management and the anticipated growth of traffic, the shortage in earnings might be overcome. This result has failed to materialize and the carriers, therefore, have concluded that in the interest of the public at large, in the interest of continuous and adequate service and in the interest of the owners of the properties, this application for some relief has become obligatory.

While under the law the carriers are justified in asking an increase that will yield them the fair return to which they are entitled, while the duty of the Commission is to adjust the rate level to produce this fair return as near as may be, and while the formal application of the Western railways now on file with the Commission contemplates a readjustment that will produce the fair return, the carriers have since decided to modify their original petition. Instead of asking an increase of approximately 11 per cent in their present freight revenues, they do hereby amend that petition by suggesting a very modest increase of approximately 5 per cent. The situation as to the Western railways as a whole has become so acute that in their judgment an emergency exists, and relief should be forthcoming with the least possible delay. Furthermore, the carriers do not suggest an advance that might possibly in any instance affect the free movement of any traffic, although it is their judgment, based on experi-

ences connected with advances in the past, that even an 11 per cent increase would not have this result.

The greater advance would, however, undoubtedly provoke greater opposition, with resultant greater delay in the decision by the Interstate Commerce Commission, while the lesser advance, we believe, cannot invite legitimate criticism and should lead to a speedy adjustment. It is the hope of the railways that an early grant of this modest request, together with favorable consideration in some individual readjustments now pending, coupled with the expectation that there may yet be some expansion of traffic, will obviate the necessity for any further general increases at this time.

Our specific proposal is that there shall be an increase of approximately 5 per cent in freight revenues to be accomplished in the following manner:

A horizontal increase of 5 per cent in all existing freight rates except as follows:

Rates on grain, grain products, flaxseed and other seeds taking flax or grain rates to the following markets: Kansas City, St. Joseph, Atchison, Leavenworth, Nebraska City, Omaha, South Omaha, Council Bluffs, Sioux City, St. Paul, Minneapolis, Duluth and West Superior to be advanced 1 cent per hundred pounds.

Proportional rates in effect on these commodities between these markets and from these markets to Chicago, Peoria, St. Louis, East St. Louis and points taking the same rates, also to Mississippi Valley and southwestern destinations and to Gulf Ports and Rio Grande crossings for export to be advanced 1 cent per hundred pounds.

Intrastate rates and all other rates on these commodities to be advanced 1 cent per hundred pounds excepting that through rates based on a combination of local and proportional rates; also through rates from points west of the Missouri River and from Oklahoma to Mississippi Valley and southwestern destinations and to Gulf Ports and Rio Grande crossings for export to be advanced 2 cents per hundred pounds; also except rates between Pacific Coast and western trunk line and southwestern territories to be advanced 3 cents per hundred pounds. Should instances develop where this proposed adjustment might result in disruption of any established rate relationship as between markets, existing equalization to be continued by subsequent necessary readjustments.

Coal, lignite, bituminous, anthracite and semi-anthracite, also coke, 15 cents per ton.

Clay, gravel, sand and crushed stone, 7½ cents per ton.

Cement, brick and articles taking the same rates; stone — other than crushed — including artificial stone; also lime and plaster, 1 cent per hundred pounds.

Lumber and articles taking the same rates, or arbitraries over lumber rates, 2 cents per hundred pounds.

Through rates to and from Eastern and Southeastern territory, excepting on lumber, to be advanced to the extent Western line earnings are advanced, the entire advance to accrue to Western carriers, excepting that no advance is proposed in class rates between Eastern territory and Mississippi River — Dubuque and south — and Illinois and southern Wisconsin pro-rating territory.

No change is proposed in current charges for switching, reconsigning or for other accessorial services.

Some additional exceptions as to rates on transcontinental traffic will be submitted by a succeeding witness.

As to passenger fares, we did not in our original petition nor do we now propose any change in the existing standard basis. Our judgment and experience dictate that any increase at this time would not substantially increase the revenues. Competition with other modes of travel is acute, and daily becoming more so, and any increase in the present rates would not invite an increase in rail travel, but, on the contrary, would undoubtedly provoke a decrease.

On the other hand, while a reduction in the present passenger rates might stimulate slightly the present passenger traffic, our judgment is that this possible slight increase would not be sufficient even to offset the loss of revenue that would result from a general decrease in the current fare. We, therefore, believe that it would be unwise and futile to suggest at this time any change in the present standard basis.

The amount of increase we are asking for is nominal and to the individual who may pay it will be so negligible that it will cause no ripple in his daily life or pursuits. In the aggregate to the individual railroads, however, it will materially aid in maintaining that adequate service which is of far greater value to the producer than any fanciful damage he might think he would suffer by an advance of 1 cent or less per bushel for the transportation of his products. When daily fluctuations in grain prices are often several times greater than the meager advance we have proposed, it is indeed difficult to conceive how this slight advance could in actuality affect the situation.

The so-called Hoch-Smith resolution provides that the Interstate Commerce Commission shall investigate the general freight rate structure of the country, considering, as a factor in rate-making, economic conditions prevailing in the various industries, including agriculture. In the establishment of voluntary rates by the carriers this particular feature, as well as the usual features governing rate-making, has been given due consideration.

The railroads exist on the sale of transportation and unless sales can be made on a reasonable basis that will promote freedom of movement—assuming, of course, that there is demand for transportation—the railroads cannot thrive nor can they provide the desired quantity and quality of product. Consequently, the rates that have been inaugurated by the railroads are those rates which we believe will yield some profit and at the same time will create free movement of tonnage. This method of rate-making appears to be the essence of the Hoch-Smith resolution.

The Commission is further directed by Congress, under the Hoch-Smith resolution, to effect such changes in the rate structure as will promote the free movement of products of agriculture at the lowest possible lawful rates compatible with the maintenance of adequate transportation service. Western railroads were built primarily to promote and develop the production of the soil. There was little particular tonnage of other character to attract pioneer construction and as a matter of fact, there are today in Western territory great areas of land that produce only a minimum amount of other tonnage. Therefore, the Western railways are very largely dependent for their livelihood upon the free movement of the products of the soil, and rates have been made so as to promote this free movement.

Western freight rates on wheat and its products, as well as hay, are now only 17½ per cent higher than the rates in effect at the end of Federal control, rates on coarse grains are only 5¾ per cent higher, while the rates on all other commodities are 21½ per cent higher than the rates at the end of Federal control, except that on live stock the increase is less than the 21½ per cent on other commodities due to the 20 per cent reduction which has been made in the rates for the longer hauls. Further, in the general advance in rates made by the Director General of Railroads in 1918, the advance in rates on grain and its products and also on live stock

was less than on other commodities. From these figures it is evident that the principal items covered by the Hoch-Smith resolution have already received preferential treatment as compared with other commodities.

So far as freedom of movement is concerned, we have yet to learn of a single instance where, under the rates fixed by the Director General of Railroads in 1918, the higher rates established by the Interstate Commerce Commission in 1920 or the reduced rates in effect today, any grain or live stock intended for shipment has failed to move on account of these freight rates. And if our petition for advanced rates is granted, grain and live stock will still continue in their relative position as to other commodities of having incurred a smaller advance since pre-war days than other items of commerce.

While the Hoch-Smith resolution emphasizes the propriety of considering the economic condition of industry in the adjustment of rates in so far as it is legally possible to do so, we do not understand that the purpose of this resolution is to eliminate all other customary factors that enter into the making of rates. If this were true, a most deplorably chaotic situation would ensue. A prosperous industry might be asked to pay rates that from every other standpoint would be too high in order to help out some less fortunate industry, the railroads being used as the channel through which to balance the accounts. In the event all industry should be depressed, God help the railroads.

SITUATION OF THE DENVER & RIO GRANDE WESTERN

Testimony of J. S. Pyeatt

J. S. Pyeatt, president of the Denver & Rio Grande Western Railroad, testified as to the conditions with which his line is confronted. The Denver & Rio Grande Western is one of the outstanding examples of carriers located in the Western district whose present revenue situation and operating conditions reflect the extreme adversities confronting the Western transportation industry as a whole.

I recognize fully, although reluctantly so, that the Rio Grande cannot consistently nor practically expect any other or different treatment than that to be accorded the carriers as a whole, in the Western district, in this case.

Nevertheless, I feel that Rio Grande's situation will demonstrate the urgent necessity for some measure of relief to all carriers in the West.

The marked decline, almost to the point of non-production, in the metal mining industry in Colorado and Utah during the past ten years has most seriously affected Rio Grande's field of revenue production. Our secondary main lines and branch lines, originally constructed to serve metal mining districts, now serve growing agricultural and stock raising communities which must have continued adequate rail transportation if the states of Colorado and Utah are to be permitted to recover from the blow suffered by the decline of the metal mining industry.

The agricultural and stock raising industries in Colorado and Utah have now developed to a point which justifies, from a transportation viewpoint, their being required to stand upon their own feet, with relation to other forms of industrial activity. There can be no justifiable reason for according these industries within these states a rate level which permits them to expand at the expense of other industrial development, nor solely to enter distant markets that they are not economically located logically to serve.

The radical change in the volumes of the commodities handled by the Rio Grande during the past decade, resulting from the decline in the metal mining industry, without prospect of revival, succeeded by an increase in the lower rate bearing coal mining industry, together with the loss of transcontinental traffic which we have suffered with no prospect of recovery, have greatly restricted our revenue producing field, without offering an opportunity for a corresponding reduction in operating costs, or opportunity for any substantial abandonment of mileage.

As regards the rate situation, prior to the World War, Rio Grande's position as an exclusively mountain and desert railroad system, with resultant high operating costs and sparse population to be served, had been recognized by a higher rate structure than that accorded systems located in the more favorable prairie and plains regions. This position has not since been taken into consideration in the various general rate changes that have been made. Consequently, there has been no corresponding relief for Rio Grande from the increased expenses of operation during this period, which, because of geographical location, have risen in even greater ratio than the increases met with by other Western carriers.

A striking example of these higher operating costs is evidenced by the fact that Rio Grande's prevailing rate of pay for a brakeman is higher than the standard rate of pay for a conductor. These higher wage bases were originally established during the early negotiations with organized labor, about 35 years ago, under the conditions surrounding a newly settled mountainous country approaching the peak of its boom in the metal mining industry. The hardships with respect to living conditions and restricted social and educational facilities then existing, have long since disappeared. Nevertheless, these higher wage levels have been maintained throughout succeeding years and have been confirmed by a government tribunal.

On the four per cent grade, narrow gauge train district traversing the Continental Divide over Cumbres Pass, the use of three narrow gauge locomotives is necessary to secure a train tonnage capacity equal to one-sixth that of one moderate size standard gauge locomotive on a 0.5 per cent grade line. In other words, it requires 18 engineers, 18 firemen, 6 conductors and 12 brakemen to perform the same service that one engineer, one fireman, one conductor and two brakemen perform in connection with the ordinary train load on a prairie line.

Rio Grande's property investment of $167,000,000 in 1910 received a return of 4 per cent. At the close of 1915, after the further investment of $13,000,000 in additions and betterments, the rate of return was only 3.6 per cent. At the close of 1920, after further improvements of approximately $6,500,000 or a total since 1910 of $19,500,000, a return of 3.82 per cent was earned. For the period 1921 to 1924, after still further investment of approximately $10,000,000, or a total of almost $30,000,000 since 1910, the rate of return was only 1.43 per cent in 1924, or an annual average of but 1.96 per cent for the four-year period.

Such a situation requires no further comment. Manifestly the physical property of the Rio Grande has not been improved to an extent exceeding the development of its traffic or the requirements of the Transporation Act for adequate and dependable transportation service. On the contrary, it is apparent that for the first time in the past ten, if not the past twenty years, the transportation plant of the Denver & Rio Grande Western and the other Western carriers as well has most nearly approached the capacity necessities and state of efficiency necessary to

properly meet the requirements for adequate transportation. Obviously, if the additional capital outlay which has produced this desirable condition of plant efficiency continues to receive a decreasing rate of return, it is manifest that further additions to roadway, structures and equipment cannot be undertaken as there will be no market available for the realization of additional capital through the sale of railroad securities.

EXCEPTIONS IN TRANSCONTINENTAL RATES

Testimony of P. P. Hastings

Exceptions from the general program of the railroads as laid down by Mr. Spens were discussed with reference to transcontinental traffic by Paul P. Hastings, general freight agent of the Atchison, Topeka & Santa Fe Railway. In proposing exceptions to whatever percentage advance in freight rates may be authorized in this case, the transcontinental lines have borne in mind that this is an application for an increase in revenues rather than an advance in rates only. The increase of any rates which would fail to produce additional net revenue would be worse than useless.

On transcontinental traffic, certain exceptions in rate changes are proposed from the carriers' general petition for a five per cent increase in freight rates. These exceptions fall generally within three classes.

In the first class are those transcontinental rates which it is proposed to increase by flat amounts to preserve existing differential relationships.

In the second class are those transcontinental rates to intermediate points where rates are graded. In this class, it is proposed to increase these intermediate rates in such a manner that the rates to intermediate points will not exceed the rates to the terminal.

The third class includes those transcontinental rates in which no advances are proposed by the railways. This class covers those commodities in whose transportation the railways are subject to water competition, such as that through the Panama Canal. It is obvious that to increase the rates on these commodities would result in a loss, rather than a gain, in revenue to the railways.

Also included in this class in which no increases are proposed are the transcontinental rates on perishable traf-

fic moving in large volume from the Pacific Coast. This traffic includes citrus fruits, deciduous fruits and fresh vegetables. As these perishable commodities from the Pacific Coast have the longest haul of such traffic to Eastern markets, and, consequently, the highest freight rates now, it is felt that no freight rate increases should now be made on account of their economic position.

OPPOSITION TO PROPOSED NEW RATE GROUP

Testimony of S. H. Johnson

The attitude of the Western railways toward the proposed formation of a new Southwestern rate group was presented by Stanley H. Johnson, vice-president of the Chicago, Rock Island & Pacific Railway.

In 1920, the Interstate Commerce Commission, for rate-making purposes, divided the Western territory into two groups, the boundary line between those groups being represented, roughly speaking by the Rocky Mountains. This is generally satisfactory to the carriers, but information is at hand indicating that various State Commissions located in the Southwest intend to advocate in this case the segregation for rate-making purposes of the southwestern portion of the United States, by including in a new group the states of Texas, Louisiana, Arkansas and Oklahoma, and certain portions of Missouri and Kansas.

This proposition is apparently born of the theory that the Southwestern roads are more prosperous than the Northwestern roads, and that the general increase in freight rates should, therefore, be less in Southwestern than in Northwestern territory. This view is not representative, to any substantial extent, of the true facts, nor for any broad period of time. To the small extent that any such condition may have been present, I wish to assert that it has been temporary, and the indications are that it is changing to the end that the Northwestern carriers may probably in the future be relatively more prosperous than those in Southwestern territory.

As nearly as the figures may be segregated in the two territories, it appears that in the past four years the Northwestern roads have earned an average annual return of 3.40 per cent, while the Southwestern roads have earned 3.72 per cent. In two of these four years, the Southwestern

carriers have been below, and in two years above, the Northwestern carriers, in the rate of return which they have earned. In 1924, when the Southwestern roads topped the Northwestern in their rate of return, there were bumper wheat crops in the Southwest and a shortage in the corn crop in the Northwest. These conditions were the most prominent influences which caused the Southwestern roads to make a relatively better showing.

However, regardless of whether the Southwestern carriers have been more prosperous in a temporary way than the Northwestern carriers, the roads in both sections of the West have been earning substantially less than the fair return to which they are entitled, and an advance in freight rates in both territories is both necessary and justified.

Mr. Johnson also discussed certain rate reductions in Western territory which have been made by the Interstate Commerce Commission since the Western railways' petition for increased earnings was filed on April 28, 1925. If these reductions are enforced and the carriers are merely granted advances based upon such reduced rates, it will obviously not afford them the revenues to which it is believed they will have proven themselves legally entitled as a minimum. It is, therefore, recommended that such advances as are allowed be applied to the rates in effect on the date the petition was filed and that the record in such cases be ordered re-opened and the issue further considered as based upon the merits of the existing situation.

WESTERN AGRICULTURAL CONDITIONS

Testimony of A. E. Van Petten

The financial situation of Western agriculture was discussed by five witnesses, A. E. Van Petten, president of the Pioneer Mortgage Company of Topeka, Kansas; F. W. Koneman, vice-president and manager of the Citizens Investment Co. of Sioux Falls, South Dakota; Albert H. Denton, president of the Home National Bank of Arkansas City, Kansas; N. Holman, president of the First National Bank of Guthrie, Oklahoma, and H. I. Foskett, of Shenandoah, Iowa. Mr. Van Petten's testimony was to the following general tenor. The demand for farm lands in his territory is very much greater than it was 3 or 4

years ago. There has been a substantial improvement in the last two years, as compared with 1920 and 1921, in the matter of foreclosure upon farm lands. There are practically no foreclosures now except in unusual cases of difficulties arising from the period of inflation. The farmer is now better able to pay the interest on his loans than he has been since the period of war-time prices. In a general way he is able to pay his interest out of his earnings from the land and a great many of our farmers are now paying off their loans, some of them in part and some of them in full.

Any farmer who did not load up with excessively high-priced live stock and did not take on too much additional land during the inflation period is or should be making money today. Indeed, I doubt if any farmer who is conservative would want to change the conditions now for those prior to the war.

My idea is that any farmer has a better opportunity to make money with prices as they now stand than he had before the war. In other words, I think there is a better opportunity now to be conservative and to save money under the present conditions than there was before the war.

Testimony of F. W. Koneman

The testimony of F. W. Koneman, vice-president and manager of the Citizens Investment Company of Sioux Falls, South Dakota, followed the same general trend. In his testimony Mr. Koneman stated that in his territory there are very few foreclosures at the present time; that farming is more profitable now than it has been and that, speaking generally, the farming industry is on a fairly profitable basis, better, in his opinion, than it was in 1915, 1916 and 1917. A great many farmers say that they have made more money in the last two years than they did prior to the war.

Testimony of A. H. Denton

Albert H. Denton, president of the Home National Bank of Arkansas City, Kansas, testified that the farmers as a class in his territory are making money; that agriculture is in a satisfactory condition and that there is no substantial default in interest payment on the farmers' obligations. Further, Mr. Denton testified that in his territory farmers as a class are now better off than they were before the war, and that agricultural opportunity is now

better. A farmer who works well, economically and efficiently can made profits and can make money.

Testimony of N. Holman

A statement of the present agricultural conditions in Oklahoma was furnished by N. Holman, president of the First National Bank of Guthrie, Okla., who testified that agricultural conditions in his state have materially improved in the past two years. There has been a continual liquidation of indebtedness by the farmers. Not only are the farmers paying off their old debts, but they are very little inclined to borrow money for their current operations, carrying on instead on their own funds and resources. This is significant proof of their improved condition.

Testimony of H. I. Foskett

H. I. Foskett of Shenandoah, Iowa, testified as to the situation of Iowa agriculture. Mr. Foskett has made a survey of five townships in four counties in Iowa to ascertain the percentage of land that was mortgaged and the purpose for which the money was borrowed. He found that an average of but 50 per cent of the acreage was mortgaged and of this 50 per cent approximately 88 per cent had been mortgaged for the purchase price. A conservative farmer who did not speculate in the period of inflation is now in good condition, quite as good as he was before the war. Further, a number of present mortgages are now being paid off in options.

THE CONDITION OF AGRICULTURE

Testimony of H. W. Moorhouse

The condition of agriculture in general and of Western agriculture in particular was presented by H. W. Moorhouse, general supervisor of the Agricultural Research Division of the Brookmire Economic Service and formerly Director of Economic Research of the American Farm Bureau Federation.

Mr. Moorhouse first discussed the long-time trend of farm prices and of prices of all commodities from 1791 to the present day. On the customarily accepted base of 1913 as 100, prices of commodities in general were materially higher than the prices of farm products up to the

time of the Civil War. During the Civil War period farm prices overtook and passed prices in general, only to fall below again, however, after the close of the war. In 1909 farm prices again caught up with prices of commodities in general, followed the same course that these prices did until the outbreak of the World War and then exceeded prices in general. The post-war depression forced agricultural prices below the level of general prices, but this loss has been more than made up and farm prices are now relatively higher than are prices in general.

Throughout the entire period covered, agricultural prices have moved toward the general level of all commodities. In the pre-war period from 1909 to 1913, agricultural prices had reached the most favorable position in relation to all prices that they had ever enjoyed with the exception of two years during the Civil War. At the present time, in 1925, this same favorable relationship prevails.

The present favorable relationship of agricultural prices to the prices of all commodities is to be considered in the light of the trend prior to the World War. The factors that worked then causing a gain in agricultural prices over other prices, are operating just as strongly now. In fact, the basic influences, namely the growth of our city-dwelling population which provides constantly widening markets, and the slowing up of the expansion of farm land area almost to the stationary point tending to limit supplies, are both in favor of the advance of the level of agricultural prices above the price level of all commodities in the future.

Mr. Moorhouse quoted the following statement made by the United States Department of Agriculture: "Farm production in 1924 with a value of $12,404,000,000, excluding crops fed to live stock, had a relative exchange value in terms of non-agricultural commodities amounting to about one per cent above the average of the five years 1910-1914. When reduced to terms of a dollar's worth of non-agricultural commodities in 1910-1914, the farm production of 1924 had a value of $7,642,000,000, and, for the first year since the deflation period began in 1920, exceeded the pre-war average of $7,580,000,000." On the basis of the five-year average 1910-1914 as 100, the relative exchange value of farm production in terms of non-agricultural commodities was 88.0 in 1920, 82.1 in 1921, 85.6 in 1922, 97.3 in 1923 and 100.8 in 1924. This is a striking illustration of the growth in farm purchasing

power which has occurred since 1920 and 1921, and shows, further, that agriculture as a whole is now even better off than in the five years immediately preceding the World War.

Figures were next presented showing the farmers' available cash income for twenty-four Western states and for the United States as a whole, for each year from the fiscal year 1910 to the fiscal year 1925, inclusive. The term "available cash income" means the amount of net cash sales less taxes and interest charges. It appears that in the fiscal year 1925 the farmers' available cash income for the Western district amounted to $4,958,100,000, a figure which has been exceeded but three times in the past sixteen years and then only in the years of war-time price inflation.

To give some illustration of the increase in the farmers' available cash income which had occurred in the fiscal year 1925, as contrasted with the fiscal year 1922, and the fiscal year 1916, the last year before this country entered the World War, the detailed figures are presented below in millions of dollars.

Farmers' Available Cash Income
(Stated in millions of dollars)

State	1916	1922	1925
Illinois	$ 287.8	$ 239.7	$ 418.6
Iowa	298.4	261.6	469.6
Missouri	180.1	158.4	256.0
Wisconsin	139.8	176.8	226.8
Minnesota	148.7	171.9	311.1
No. Dakota	146.6	62.3	204.9
So. Dakota	121.3	49.0	149.8
Nebraska	190.6	133.9	291.9
Kansas	234.4	198.8	356.4
Louisiana	47.2	61.2	100.9
Arkansas	76.4	92.3	175.7
Texas	342.5	263.2	740.6
Oklahoma	127.9	93.1	282.2
Montana	73.3	43.4	99.1
Idaho	40.9	46.4	64.5
Wyoming	29.0	17.8	25.2
Nevada	9.3	6.3	9.5
Utah	25.2	27.2	36.1
Colorado	72.7	78.3	105.2
Arizona	10.5	16.1	31.0
New Mexico	27.5	21.6	32.0
Washington	75.2	124.8	114.8
Oregon	53.0	66.5	76.2
California	280.6	355.7	380.0
Total, 24 Western States	$3,038.9	$2,766.3	$4,958.1

The purchasing power of the individual agricultural worker now is also materially higher than in pre-war days, based on the relationship of per capita income to non-agricultural prices. Taking the year 1913 as 100, the purchasing power of the individual agricultural worker was 107 in 1924, 7 per cent above his purchasing power in 1913. Further, the purchasing power per individual in 1924 has been exceeded in but three years since 1867,—1917, 1918 and 1919, when the peak of war-time prices was reached. On the basis of 1913 as 100, the purchasing power of the individual agricultural worker is shown below for various years:

Year	Purchasing Power
1867	59
1870	59
1875	58
1880	73
1885	69
1890	74
1895	67
1900	72
1905	78
1910	99
1913	100
1915	96
1916	96
1917	126
1918	134
1919	111
1920	90
1921	71
1922	83
1923	97
1924	107

The average purchasing power of the average Western farm is now 14.1 per cent greater than the pre-war purchasing power. On the basis of the five-year average 1909—1913 as 100, the purchasing power of the average Western farm stood at 114.1 in the fiscal year 1925. This figure has been exceeded but twice in the last sixteen years and then only in the years when this country was an active participant in the war.

The purchasing power of the average Western farm is shown below for each of the fiscal years from 1910 to

1925, based on the average of the five years 1909—1913 as 100:

Year	Purchasing Power
1910	98.9
1911	98.2
1912	95.6
1913	104.7
1914	102.4
1915	106.8
1916	101.2
1917	108.7
1918	129.0
1919	134.8
1920	110.0
1921	87.8
1922	66.3
1923	83.2
1924	97.5
1925	114.1

When from the gross sales of agricultural products there are deducted the sales to other farmers, interest and tax payments, wage payments and the various other expenditures necessary in running a farm, there was left in the fiscal year 1925 a balance of $5,140,000,000 to the farm owners and farm operators for living expenses and other purposes. This amount has been exceeded but three times in the past sixteen years, in 1917, 1918 and 1919. The figures of this balance to the owners and operators for each of the last sixteen years are shown below, in millions of dollars:

1910	$3,150
1911	3,068
1912	2,853
1913	2,988
1914	2,998
1915	3,006
1916	3,425
1917	4,854
1918	7,799
1919	8,518
1920	7,837
1921	4,163
1922	2,821
1923	4,156
1924	4,397
1925	5,140

The foregoing discussion of increased purchasing power has been based mainly upon the two factors entering into the total of agricultural sales and income, namely: the volume of commodities produced and the unit prices at which these commodities have been sold. Comparison upon the unit price basis alone, however, may also be made, with the five-year average 1909-1913 representing 100. The purchasing power per unit in August, 1925, was 107.0 for beef steers, 120.0 for hogs and 128.0 for lambs.

In connection with Mr. Moorhouse's testimony of agricultural income and purchasing power it should be realized that in addition the farmer also has his home furnished and much of his food supply.

Testimony of W. J. Hagenah

The high prices of farm products during the past year and a half have brought prosperity to the farmers, testified W. J. Hagenah, prominent public utility rate expert. The prices which they have received for their products have enabled the farmers to liquidate most of their current debts and a part of their mortgage indebtedness, to repay notes and accrued interest at the banks, to pay delinquent taxes, etc. With the deflation of the unsound real estate values which grew out of the war, with the collapse of unsound credit based thereon in some states, and with an improved credit and banking situation in the agricultural sections, agriculture is again on a sound basis.

In the states which were hit hardest by the depression, important gains are being made in diversified farming, this movement, fostered by the banks and by the agricultural colleges, having attained sufficient headway to serve as a buffer from the severe effects of the old one-crop system. Bank deposits in these farm states have increased markedly, frozen loans and discounts have largely been liquidated, and old accounts with merchants have been paid. Country banks, instead of requiring assistance from the large correspondent banks and rediscounts from the Federal Reserve banks, are now sending their funds to the large cities for investment.

All branches of the farm machinery trade are again active, and the volume of their sales has increased greatly. During the unprofitable crop years 1920-1923, farmers deferred buying, but with deficits made up, a large amount of machinery and parts is again being purchased. The revival of Europe has also opened up a huge market for

the American farmer's exportable surplus, although the rapidly increasing urban population at home demands a constantly larger share.

The farmer, moreover, is now in a position to receive financial assistance from new sources, and more assistance from former sources. With his status improved by the events of the past two years he is again a welcome visitor at the commercial bank, while the great expansion of the farm loan banks has placed huge sums at the farmer's disposal for long terms at very reasonable rates. The expansion of the joint stock bank has been of material aid, while the recent intermediate credit bank law will supply a credit need midway between the long term loan and the type of commercial paper eligible for rediscount at the Federal Reserve banks.

Agricultural prices have risen until they are now relatively higher than the prices of other commodities. There is nothing on the national or international horizon at the present time to indicate that substantially the present prices will not prevail for several years, the probability being that a number of farm prices will go higher rather than lower.

Since 1910 the number of farms operated has remained practically stationary, and the number of persons engaged in agriculture has actually declined. The non-agricultural population, meanwhile, has increased from 60,000,000 in 1910 to 82,000,000 at the present time. With increased taxes, interest charges and wages for farm help, the cost of agricultural production has naturally increased. While this has given a considerable stimulus to various labor saving devices, a number of years will be required to install an appreciable amount and to effect a reduction in costs. Past farm history shows that a remunerative price will increase the use of machinery and improved methods, but as the typical farmer is exceedingly conservative, the changes will come about slowly and for that reason there is nothing to indicate that the supply of agricultural products will be increased in an unusual manner during the next decade. With a stationary rural population, a rapidly increasing urban population, and greatly improved credit and transportation facilities, the demand factors have rapidly outstripped the supply factors, and as long as this situation obtains the present price advances will be substantially maintained. The rapid recovery in farm prices has removed one of the most important influences

tending to reduce other prices. Since the deflation in 1920 and 1921 was a forced movement of extraordinary proportions, the quick recovery was to be expected and in that recovery is seen the basis for higher, rather than lower, farm prices in the future.

INCREASED COSTS OF RAILWAY CONSTRUCTION

Testimony of F. C. Squire

Frank C. Squire, valuation engineer of the valuation organization of the Western railways testified as to the increased cost of railway construction in 1925 as compared with 1914. His testimony is summarized in the following table which shows the percentage of increase of the 1925 costs of construction over the corresponding costs in 1914 for the Western railways.

Percentage of Increase in Construction Costs of Western Railways

Account	Percentage increase, 1925 over 1914
Engineering	100
Grading	65
Tunnels and subways	65
Bridges, trestles and culverts	85
Ties	70
Rails	45
Other track material	85
Ballast	95
Track laying and surfacing	125
Right-of-way fences	90
Snow and sand fences and snowsheds	90
Crossings and signs	80
Station and office buildings	100
Roadway buildings	100
Water stations	100
Fuel stations	100
Shop and engine houses	100
Wharves and docks	80
Coal and ore wharves	80
Telegraph and telephone lines	70
Signals and interlockers	85
Power plant buildings	100
Power distribution systems	70
Miscellaneous structures	100
Roadway machines	125
Shop machinery	110
Power plant machinery	110
Steam locomotives	116
Other locomotives	116

Account	Percentage increase, 1925 over 1914
Freight train cars	90
Passenger train cars	94
Floating equipment	70
Work equipment	90
General expenses	78
Interest during construction	78
Grand total	82

The foregoing grand total average is a weighted average.

THE CONDITION OF AGRICULTURE

Testimony of Walter Ferguson

Walter Ferguson, vice-president of the First National Bank of Oklahoma City, Oklahoma, testified as to the agricultural situation in his territory, stating that Oklahoma agriculture has shown a great recovery in the last year and a half with prospects of further improvement. There is a general feeling of optimism among the agricultural interests of the state. The farmer is now obtaining much better prices than he did before the war and the agricultural industry has more money now than it did then.

Testimony of David Friday

David Friday, noted economist and former president of the Michigan Agricultural College, testified as to the general agricultural situation. From 1897 to 1924, the prices of farm products increased 141 per cent while the prices of non-agricultural commodities increased 124 per cent. This has been caused by the increasing growth of American industry, by the great increase in the urban population which has to be fed, and by similar related factors which have materially raised the demand for products of the farm. This greatly increased demand has forced up the prices of agricultural products, with accompanying gains for the farmer.

Not only has the farmer profited from the 141 per cent increase which has occurred in the unit prices of the products which he sells, but he has also profited heavily by the increase in the volume of his production which he has sold at these higher prices. While the unit prices of farm products were increasing 141 per cent from 1897 to

1924, there was at the same time an increase of 45 per cent in the physical volume of these products, these two factors thus working together to the great financial advantage of agriculture.

These two factors have caused an actual increase in the value of farm products, excluding crops fed to live stock, of from $2,904,000,000 in 1897 to $12,404,000,000 in 1924, an increase amounting to $9,500,000,000.

Further, it appears that the increase which has occurred in the value of farm products has been materially greater in the West than in the East. In 1924, as compared with the average in the six years 1909-1914, the value of crops in the West had increased 97 per cent, while in the East the corresponding increase was but 48 per cent. In the West South Central states, the increase was 130 per cent; in the Pacific Coast states, 132 per cent, and in the Mountain states, 138 per cent.

The value of animal products has likewise increased materially in the Western states, being 56 per cent greater in 1924 than the average for the six years 1909-1914, inclusive.

The average crop values for the six-year period 1909-1914, inclusive, and the corresponding values in 1923 and 1924 are presented below for various geographical divisions of the Western district:

Estimated Value of Crops by Geographical Divisions

(Stated in millions of dollars)

Geographic Division	6-year average	1923	1924	Per cent increase 1924 over 6-year average
West North Central...	$1,638	$2,227	$2,984	82.2
East South Central...	651	936	1,025	57.4
West South Central...	841	1,874	1,933	129.8
Mountain	238	496	567	138.2
Pacific	309	737	716	131.7
Total West	3,677	6,270	7,225	96.5

Dr. Friday presented a study made by the Agricultural Experiment Station of North Dakota in cooperation with the Bureau of Agricultural Economics of the United States Department of Agriculture. This study covered the assets and liabilities of 159 farmers in southwestern North Dakota at the time of their settlement, and their net worth in 1922. The average date of settlement of these 159 farmers was 1906. The total average assets for each in-

dividual farmer at date of settlement were $4,331. The average liabilities were $1,450, so the average net worth at settlement amounted to $2,881. The average net worth in 1922 was $19,473, a gain of $16,592. Exclusive of increased land value, the gain in net worth was $10,192.

The average annual gain in net worth, including increased land value, was $1,191 while, excluding increased land value, this annual average gain was $676 per individual.

As reflecting improved economic conditions now existing in Western territory, Dr. Friday presented certain financial statistics showing for each Western state the bank deposits per capita in 1914, 1921, 1922, 1923 and 1924, and on April 6, 1925. A summary of these figures appears below:

Bank Deposits Per Capita

State	1914	1921	1922	1923	1924	April 6, 1925
Minnesota	$168	$302	$299	$316	$314	$335
Iowa	194	317	319	351	347	355
Missouri	140	256	260	291	288	*a*
North Dakota	136	233	224	239	201	249
South Dakota	139	300	305	328	252	280
Nebraska	142	275	281	298	295	321
Kansas	96	228	211	217	200	230
Louisiana	69	152	166	180	180	194
Texas	64	137	136	139	152	185
Oklahoma	63	170	161	163	145	170
Arkansas	37	72	82	98	96	109
Wisconsin	139	242	235	261	272	285
Illinois	188	355	364	404	421	449
Montana	164	228	204	201	164	198
Wyoming	125	319	293	318	290	235
Colorado	145	257	258	279	274	291
New Mexico	64	117	123	115	81	83
Arizona	126	173	177	164	160	172
Utah	137	203	198	220	227	239
Nevada	197	368	369	402	415	422
Idaho	94	168	152	147	148	146
Washington	146	231	214	227	251	245
Oregon	150	264	262	286	288	299
California	287	499	531	602	629	687
Western District.	141	263	266	291	294	*a*

The foregoing figures indicate that for the Western district as a whole there has been a progressive increase in average bank deposits from 1921 to 1924 which must reflect corresponding improvement in the general economic condition of the Western states.

a Data not available.

Statistics of farm land value per acre from 1900 to 1920 were also presented by Dr. Friday. These figures appear below, for various geographic divisions of the West.

Value of Farm Land Alone Per Acre

Geographic Division	1900	1910	1920
West North Central	$19.37	$43.21	$83.04
West South Central	5.40	16.06	31.18
Mountain	6.12	19.73	23.88
Pacific	17.78	43.76	74.21
United States	15.57	32.40	57.36

Value of Farm Lands & Buildings Per Acre

Geographic Division	1870	1880	1890	1900	1910	1920
West North Central	$15.55	$14.83	$19.68	$23.14	$49.92	$95.22
West South Central	4.08	5.36	7.91	6.45	18.50	36.27
Mountain	5.11	14.61	13.45	7.30	22.16	26.96
Pacific	11.58	14.98	27.57	20.17	48.28	83.16
United States	18.26	19.02	21.31	19.81	39.60	69.38

These increases in land values reflect and have resulted from the enormous increase which has occurred in agricultural income.

FUTURE PRICE LEVELS

Testimony of G. E. Roberts

Future price levels were discussed by George E. Roberts, vice-president of the National City Bank of New York, who testified that lower price levels are not now in sight.

The general level of prices in the long run is determined by the standard of value and the existing facilities for supplying credit, based upon the standard. The price level before the war was based upon gold, with the gold standard in use practically all over the world, and credit was restricted within the limits fixed by the requirement that all currencies should be redeemed in gold.

The war forced the temporary abandonment of the gold standard, and caused so much credit to be used as purchasing power that the value of all money was depreciated, including gold itself. Now, with the world turning back to the gold standard, and many countries undertaking to resume gold payments, it might seem to be a natural assumption that the same forces which determined the price level before the war would produce like results again, and perhaps bring prices back to the prewar level.

In other words, it would appear that if all the countries which have been off the gold basis were to resume gold payments and set about increasing their gold reserves, they would cause a demand for gold which might be expected to tighten credit and raise the value of gold as compared with commodities. There are, however, counteracting influences of sufficient weight to at least greatly modify any such tendency, and, in the opinion of many students of the subject, probably offset it entirely for a very considerable period of time.

The price level is determined by economic forces, but these forces sometimes have alternative lines of operation. They work constantly to maintain the industrial equilibrium, which may be found at different price levels. In view of present conditions, it seems to me that the present system of prices is so firmly established, and its various features so interlocked, that there is no prospect of its being lowered materially, except by influences which would operate very slowly over a long period of time; while, on the other hand, I see no insuperable obstacle to attaining the equilibrium upon about the present level, and there are very significant indications that this is being accomplished. I do not think that there is anything in the monetary situation over the world likely to cause a lower level of prices within any period that can now be reasonably included in a forecast.

SITUATION OF THE CHICAGO, MILWAUKEE & ST. PAUL

Testimony of H. E. Byram

The situation confronting the Chicago, Milwaukee & St. Paul Railway was presented to the Interstate Commerce Commission by H. E. Byram, now one of the receivers and formerly president of that company. The rate of return on property investment earned by the St. Paul was 0.74 per cent in 1921, 1.87 per cent in 1922, 2.75 per cent in 1923 and 2.58 per cent in 1924 or an annual average for the four years of 2.01 per cent.

From these figures it will be seen that in no year since the passage of the Transportation Act has the St. Paul earned a fair return upon its property. On account of the disturbed conditions resulting from the war, which caused a severe business reaction in the North and Middle West,

the first two years immediately following the passage of the Act, did not afford a fair test of the adequacy of the rates established by the Commission.

The years 1923 and 1924, however, did afford a test of the adequacy of the rates now in effect. These years reflected a normal condition of business as measured in terms of post-war conditions. There has been an adequate supply of good and efficient labor and there have been no troubles or disturbances in this field of operation.

There is no ground or basis for expecting, at least in the near future, any lowering of the cost of labor or material, or any substantial increase in business which would make up the deficit between revenues and cost plus a fair return. Seeing how far the revenues of the carriers in this section of the country have fallen short of netting a fair return since the passage of the Transportation Act, and the large losses which the investors in the securities of these railroads have sustained, this is not a time for excessive caution in establishing adequate rates which will permit these carriers to earn what the law contemplates.

The year 1916, which was the last year before the entrance of this country into the war, reflected a normal pre-war condition. In that year business was good; there had been little increase in the cost of labor or material and for the roads in the Northwestern region and the Western district there was a normal and proper relationship between the cost and charge for service. In the case of the St. Paul, the margin was a safe if not a fully adequate one. In that year the St. Paul's net railway operating income amounted to a return of 4.92 per cent upon its total investment.

Had this relationship between cost and charge been maintained, the St. Paul would today, on the basis of the business it actually handled in 1923 and 1924, be in a sound financial condition instead of in the hands of receivers. A safe and proper margin between cost and charge was not maintained and does not obtain at the present time. Large increases have occurred in the cost of labor and materials which were not met by compensating increase in the return or charge.

A railroad, like any other business, produces something to sell; it is subject to the same economic law as other business, and when it undertakes, or through regulation is required, to sell what it produces at less than cost, bankruptcy is sure to follow. This is what happened to the St.

Paul. Our present financial troubles are not due to any inherent cause of weakness, but are due to conditions which have limited our earnings in common with other carriers in the Western district to a figure far below that necessary to financial security. The St. Paul, having large maturities at this time, with a higher ratio of funded debt to capitalization, and with little income other than that from railway operations, was the first to fail. But if the present inadequate margin between cost and charge continues, others will fail also.

SITUATION OF THE CHICAGO, ROCK ISLAND & PACIFIC

Testimony of L. C. Fritch

Conditions confronting the Chicago, Rock Island & Pacific Railroad Company were submitted to the Commission by L. C. Fritch, vice-president of that company. The Rock Island, testified Mr. Fritch, in order to adequately serve the public in the way of transportation, should spend over a period of five years a total sum of $115,000,000, made up of roadway and structure items $75,000,000 and equipment $40,000,000. This would be an average capital expenditure of approximately $23,000,000 per year.

Some of the outstanding items which go to make up this five year total of $115,000,000 are detailed below:

Ballasting	$ 3,500,000
Rails	7,000,000
Bridges	4,000,000
Separation of grade crossings	2,000,000
Track elevation in cities	10,000,000
Additions and extensions of lines	24,000,000
Additions of yards, sidings and other tracks	2,000,000
Automatic signals and interlockers	1,500,000
Freight and passenger stations and other buildings	2,500,000
Fuel and water stations	2,500,000
Shops and engine houses	1,500,000
New shop plants	4,000,000
Increased yard and terminal facilities	5,000,000
Roadway, working devices, etc	500,000
Real estate	800,000
Assessments for public improvements	1,200,000
Stores, department structures	500,000
Shop machinery and tools	2,000,000
Improvement to existing equipment	3,000,000
New locomotives	14,000,000
New freight train cars	20,000,000
New passenger train cars	3,000,000

Our budget is based on two principles, first, that the expenditures are required in order to furnish adequate transportation facilities in territories which we serve and, second, to produce by these improvements reductions in our operating expenses, certain improvements yielding as high as 30 per cent on the investment. While both these principles are of the utmost importance to the people of the West, it is impossible for the railroads to attract the capital at the present level of rates necessary to make these improvements. In 1923 we spent in round figures $15,000,000 in capital improvements; in 1924, $8,500,000. That was the extent of our ability to get the money for this purpose.

It is impossible for us to attract capital, for our return on the money we put into the property is less than a fair return on the investment. Capital will not seek these channels, it will go into other channels. For instance for the year 1923 our rate of return was 3.73 per cent. Our money is costing us 5½ and 6 per cent. There is no incentive to put money into railways if we have to pay 5½ to 6 per cent and make a return of only 3¾ per cent on money invested. If the railroads of this country could have a period in which they could borrow the money with which to make the necessary improvements, it would only be a course of a few years until operating expenses could be reduced to such an extent that reductions in rates would inevitably follow. But if they are not able to attract the money to make improvements, then the operating expenses will not be reduced and you will have to have a rise in rates. It is an economic result that is bound to follow.

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